

**MINUTES OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON  
Friday, January 15, 1999  
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Karl Polen, Chairman, Arizona State Retirement System Board called the meeting to order at 9:05 A.M., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call**

Present: Mr. Karl Polen, Chairman  
Mr. James Jenkins, Vice Chairman  
Dr. Merlin DuVal  
Mr. Ray Rottas  
Mr. Alan Maguire  
Mr. James Bruner  
Mr. Norman Miller  
Dr. Chuck Essigs  
Mr. David Borg

A quorum was present for the purpose of conducting business.

**2. Approval of Minutes of the November 20, 1998 Regular Meeting of the ASRS Board.**

**Motion:** Mr. Ray Rotas moved to approve the minutes of the November 20, 1998 regular meeting of the ASRS Board.

Mr. James Jenkins seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

### **3. Board Approval of Consent Schedule.**

**Motion:** Mr. James Bruner moved that the ASRS Board approve the Summary Report of Retirements, Refunds, and Death Benefits; System Transfers; Representative Payee Request; and Applications and Agreements between new employers in social security and the ASRS.

Dr. Merlin DuVal seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

### **4. Presentation, Discussion and Appropriate Action Regarding Board Approval of a Consultant Budget and Process for the Potential Joint Venture Sale of the Norwest Tower.**

Mr. Sean Leahy, Senior Consultant, Ernst & Young, LLP, presented the strategic issues pertaining to the possible joint venture sale of the Norwest Tower.

Mr. James Jenkins inquired about the consultant fee of Ernst & Young, LLP in regards to changing direction toward a direct sale of the Norwest Tower. Mr. Sean Leahy stated the fee might be decreased in comparison to providing services for a joint venture sale.

Mr. Norman Miller reiterated that the ASRS Real Estate Committee and Board would continue to rely on the expertise of Ernst & Young, LLP under the purview of the existing contract.

Mr. James Jenkins asked if the ASRS Board needed to include provision in the motion relative to the budget for legal fees. Mr. Fred Stork, Assistant Attorney General, stated that the Board would need to authorize an amount for legal fees. ASRS will need outside legal counsel to provide the services. There are two options available for the retention of outside counsel once ASRS has obtained approval from the Attorney General. The ASRS may select counsel from the list of attorneys under contract with the Attorney General, or conduct a procurement process to entertain proposals from law firms having the expertise and interest in performing this sort of legal service.

Mr. James Bruner requested that the Real Estate Committee have recommendations completed and report back to the ASRS Board during the February 19, 1999 Board meeting, or such later date as appropriate.

**Motion #1:** Mr. James Bruner moved that the ASRS Board focus toward selling the Norwest Tower and retain a lease-back of an undetermined term of years, subject to the Real Estate Committee and/or outside consulting advising the ASRS Board what would be the minimum lease term needed to optimize the value of the Norwest Tower for investment purposes.

Mr. James Jenkins seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

**Motion #2:** Mr. James Bruner moved that ASRS Staff and the Real Estate Committee bring back to the ASRS Board a recommendation with respect to who will provide consulting services, the fees for these services, and estimated legal fees in conjunction with motion #1.

Mr. Alan Maguire seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

**5. Presentation, Discussion and Appropriate Action Regarding the Board Approval of One or More New Investment Consultant Contracts, as Presented by the Investment Review Board Committee.**

**Motion:** Mr. Ray Rottas moved to approve the retention of Mercer Investment Consulting, Inc. to provide performance measurement and monthly presentation services for the ASRS, as presented by the ASRS Investment Review Board Committee, at the fee schedule as outlined below:

<i>Investment Consultant Functions</i>	<i>Mercer Investment Fees</i>
Performance Measurements & Monthly Presentations	\$140,000 Per Year

and to approve the retention of both Mercer Investment Consulting, Inc., and Callan Associates, Inc., to provide other investment related services on an as needed basis, at the fee schedule as outlined below:

<i>Investment Consultant Functions</i>	<i>Mercer Investment Fees</i>
Evaluation of Potential Investment Managers	\$15,000/asset class/active \$10,000/asset class/passive
Asset Allocation Studies	\$200 per hour
Investment Goals, Objectives and Policy Review	INCL. PERFORMANCE
Internal Investment Management Review	\$200 per hour
Research and Analysis	INCL. PERFORMANCE
Litigation	\$250 per hour
General Investment Consulting Services	INCL. PERFORMANCE
1 <sup>st</sup> Renewal Period 3% Maximum Increase	2 <sup>nd</sup> Renewal 6% Maximum Increase
3 <sup>rd</sup> Renewal Period 10% Maximum Increase	4 <sup>th</sup> Renewal 14% Maximum Increase

<i>Investment Consultant Functions</i>	<i>Callan Associates Fees</i>
Evaluation of Potential Investment Managers	\$18,000-30,000/Domestic Active Managers \$18,000-23,000/Passive/Index Managers \$25,000-35,000/International Active Managers \$30,000-35,000/Real Estate Separate Account Mgrs. \$30,000-45,000/Alternative Asset Class Managers
Asset Allocation Studies	\$35,000-45,000 per year
Investment Goals, Objectives and Policy Review	\$8,000-12,000 per year
Internal Investment Management Review	\$12,000-25,000 per year
Research and Analysis	\$0-\$12,000 per project
Litigation	\$2,500/day + travel exp.
General Investment Consulting Services	\$0-\$24,750 per year
1 <sup>st</sup> Renewal Period 6.8% Maximum Increase	2 <sup>nd</sup> Renewal Period 6.8% Maximum Increase
3 <sup>rd</sup> Renewal Period 6.8% Maximum Increase	4 <sup>th</sup> Renewal Period 6.8% Maximum Increase

Mr. Norman Miller seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

**Note:** Because the ASRS Board intended to go into Executive Session for the **Presentation, Discussion and Appropriate Action Regarding the Goals and Salary for the ASRS Executive Director for Year 1999**, this item was moved to agenda item 10 to accommodate the general public in attendance.

## 6. Director's Report.

In addition to the materials presented to the Board, the following items were discussed:

Mr. Anthony Guarino, Deputy Director, reported that a presentation was given by the ASRS to the Senate Committee on Financial Institutions and Retirement on January 13, 1999. Mr. Guarino also reported that additional meetings were being scheduled with members of the Senate Committee on Financial Institutions and Retirement to discuss bills affecting the ASRS. Mr. Norman Miller and Mr. Ray Rottas commended Mr. LeRoy Gilbertson and Mr. Karl Polen for their successful presentation.

Mr. Anthony Guarino reported that the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning & Budgeting (OSPB) have made their recommendations. The JLBC has endorsed most of the ASRS budget requests; however, the OSPB was less generous in their recommendations. Mr. Alan Maguire requested the Board be provided with a comparison of the current ASRS budget request and the JLBC and OSPB recommendations. Mr. Ray Rottas requested to also include a copy of last year's comparison.

Mr. Karl Polen pointed out the new Operations Reports included in the Director's Reports. Mr. Polen questioned the 40-day response time on service requests. Mr. Anthony Guarino explained the process of a service purchase and reiterated that because the completion of forms by the members' employer is included in the process, the response time for service requests may be prolonged.

## **7. Board Requests for Agenda Items.**

Mr. Karl Polen requested to hold a lengthy Board meeting in Flagstaff in June 1999 to discuss Callan Associates' asset allocation study, which will encompass the following three areas:

- ♦ The determination of appropriate asset classes (including alternative investments) and asset class allocations, with a special focus on real estate;
- ♦ The extent to which active and passive investment strategies should be utilized for each asset class and for the fund as a whole;
- ♦ The extent to which the internal investment program and external investment managers should be utilized.

The ASRS Board would conduct the Regular Meeting and then extend the session for the presentation from Callan Associates. Mr. Fred Stork reminded the Board that the discussion meetings, irrespective of whether action will be taken, will be open public meeting subject to the open meeting law.

## **8. Call to the Public.**

Mr. Edwood Murray, representing the Pima County Retired Teacher's Association (PCRTA), from the Tucson public stated he was attending the meeting in place of Mr. Bill Peltier. Mr. Murray expressed that the PCRTA is strongly opposed to the Defined Contribution approach. The PCRTA is in favor of the bill to raise the cap on the COLA from 3% to 4%; the bill to lower the excess earnings threshold from 9% to 8%; the bill to increase the health subsidy for members; and the bill to increase the minimum benefit paid to members.

Mr. Bill Goettsch of Tucson, present in the Phoenix public, expressed his awareness of several ASRS Board members who speak to legislators. Mr. Goettsch stated he has received feedback that there are some adverse comments from Board members with respect to certain legislation that are beneficial for the system members. Mr. Goettsch feels that this behavior bothers members as a whole.

Mr. Alan Maguire announced publicly the departure of Michael Viteri, ASRS Portfolio Analyst. Mr. Maguire commended Mr. Viteri for his terrific service to the ASRS.

**9. The next ASRS Board meeting is scheduled for Friday, February 19, 1999 at 9:00 A.M. in the 10<sup>th</sup> Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.**

**10. Presentation, Discussion and Appropriate Action Regarding the Goals and Salary for the ASRS Executive Director for Year 1999.**

**Motion:** Mr. James Bruner moved that the Board convene to Executive Session to discuss the goals and salary for the ASRS Executive Director for Year 1999.

Mr. Alan Maguire seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

The ASRS Board recessed the Regular Session at 11:01 A.M.

**Mr. Norman Miller was excused at 11:05 A.M.**

The Board reconvened to Regular Session at 1:14 P.M.

**Present:** Mr. Karl Polen, Mr. James Jenkins, Mr. David Borg, Mr. James Bruner, Dr. Merlin DuVal, Mr. Alan Maguire, Mr. Ray Rottas

**Excused:** Dr. Chuck Essigs, Mr. Norman Miller

Mr. Karl Polen announced that the ASRS Board had no further action to take regarding the goals and salary for the ASRS Executive Director for Year 1999.

**11. Adjournment of the ASRS Board.**

Mr. Karl Polen, Chairman adjourned the January 15, 1999 meeting of the ASRS Board at 1:15 P.M.

Respectfully submitted,

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Jalene Trivino, Secretary

Date

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LeRoy Gilbertson, Director

Date